MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BBF3284 – INTERNATIONAL FINANCE

(All sections/Groups)

11 JULY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 1 section.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

STRUCTURED QUESTIONS (100 MARKS)

QUESTION 1

In the early 1990s, Argentina implemented a **fixed exchange rate** regime. The goal was to stabilise the economy and control inflation, which had been rampant in the country for many years.

However, the fixed exchange rate regime eventually proved to be unsustainable, especially when the US dollar appreciated in the late 1990s. Additionally, the country had a large amount of debt denominated in US dollars.

(i) Explain the fixed exchange rate regime. (5 marks)

(ii) Evaluate the impacts of the appreciation of the US dollar on Argentina on the following factors.
(a) Trade of goods
(b) Trade of services
(c) Net interest payment to abroad
(d) Foreign exchange reserves

(20 marks)

(Total: 25 marks)

QUESTION 2

(a) XYZ Inc. has a €1 million receivable from a supplier in 180 days. The current spot exchange rate is 1 USD = 1.2 EUR. The 180-day forward exchange rate is 1 USD = 1.1 EUR. XYZ Inc. can deposit funds in the U.S. at 5% p.a. and borrow funds in a European bank at 3% p.a.

(i) Calculate the total proceed of using a forward market hedge and money market hedge to cover the receivable. Which method is better? (11 marks)

(ii) Estimate the six-months forward rate that makes no difference to both methods. (4 marks)

(b) Propose **TWO (2)** specific instances in which the implementation of hedging techniques can be recommended to manage transaction exposure in a global business context. You need to provide the examples of situations. (10 marks)

(Total: 25 marks)

Continued...

QUESTION 3

(a) ABC, Inc. is a large U.S. natural gas pipeline company that wants to raise $120 million to finance expansion. Its optimal capital structure is 60% debt and 40% equity. Its corporate combined federal and state income tax rate is 40%.

A London bank advises ABC that U.S. dollars could be raised at the following costs.

	Cost of Domestic Equity	Cost of Domestic Debt
Up to $40 million of new capital	12%	8%
$41 million to $80 million of new capital	18%	12%
Above $80 million	22%	16%

	Cost of European Equity	Cost of European Debt
Up to $40 million of new capital	14%	6%
$41 million to $80 million of new capital	16%	10%
Above $80 million	24%	18%

Calculate the lowest average cost of capital. (10 marks)

(b) DEF Group Holding Limited is a Chinese multinational technology company that specialises in e-commerce, retail, and technology. In 2014, DEF Group completed a cross-listing of its shares on the New York Stock Exchange (NYSE), in addition to its existing listing on the Hong Kong Stock Exchange. Why did DEF Group engage in cross-listing? Explain your answer with **THREE (3)** reasons.
(15 marks)

(Total: 25 marks)

Continued...

QUESTION 4

(a) Suppose the interest rate in the United States is 0.25% per year, while the interest rate in Japan is 0.5% per year. The current exchange rate is 1 USD = 110 JPY. Assuming that the forward exchange rate is 1 USD = 110 JPY and your borrowing is USD 1 million or equivalent. How an investor can earn a profit through covered interest arbitrage? Show your calculation. (12 marks)

(b) The current spot exchange rate for USD/EUR is 1.1500, and the 1-year forward points for USD/EUR are 75. Calculate the 1-year forward rate for USD/EUR using basis points. (4 marks)

(c) Explain **THREE (3)** functions of a foreign exchange market. (9 marks)

(Total: 25 marks)

End of Paper